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## OUR MISSION

DKW's objective is to smooth the transition from traditional processes to the "high technology" computerized information systems in today's business environment. Working as partners with our clients, we strive to:

- establish ourselves as technological leaders in the computer solutions marketplace
- create advanced computer solutions that will address complex client challenges
- provide an environment for our people which fosters and rewards teamwork, honours creativity and entrepreneurship, promotes personal and professional growth, and is based on fair, open and candid communications
- furnish an above average return for our shareholders in a manner which is ethically and socially sound



## PRESIDENT'S MESSAGE TO SHAREHOLDERS

Fiscal 1994 was an active and productive year for DKW Systems Corporation. It was a year dominated by a successful corporate restructuring, an increased penetration into the fastest growing segments of the consulting services market and the launching of several new business initiatives with international market potential.

Revenues for the year of \$6,003,000 generated net earnings of \$94,000. Revenue from consulting activities was equivalent to the previous year, although consulting gross profits improved considerably. The decline in product sales by \$866,000 reflected a decision to no longer handle hardware sales directly, but rather address client hardware requests on a negotiated commission basis through strategic partners. This new policy has resulted in decreased overhead and financing requirements, and better and more focused support for our clients.

Net earnings were marginally below last year, although the current year included a one-time \$108,000 restructuring charge in respect of severance and termination costs and a \$21,000 provision related to government mandated changes to the corporation's internal handling of sub-contractor's CPP and UIC remittances. Working capital continues to improve, and year end cash balances exceeding \$225,000 will comfortably fund our current growth objectives.

A significant corporate restructuring program commenced in April 1993 with the termination of two senior officers, followed by the downsizing of administrative staff. The result has been very positive with a more focused approach to business development and more balanced and effective corporate financial and administrative control.

In December, the corporation successfully raised \$99,000 through a private placement of 300,000 shares, and throughout the year it raised an additional \$36,000 from the exercising of various stock options. DKW's employees and investors continue to demonstrate keen interest to increasing their investment positions in the corporation.

The focus of the corporation's consulting operations continued to shift towards more advanced client server and object oriented technologies. Demand for these new system development technologies is increasing rapidly across a broad spectrum of clients. We are aggressively establishing a leadership position in the application of these technologies. Our efforts have resulted in several significant new long-term relationships with major clients as well as the growing development of one of the best new technology development staffs in Canada.

To fully leverage our profile in the new technology consulting market, management has increased its internal development of major project management and systems development methodologies. This will ensure consulting revenue over the coming years. Management has also broadened DKW's service base with the successful introduction of software related outsourcing services and with the development of expertise in the expanding business process re-engineering market.



## PRESIDENT'S MESSAGE TO SHAREHOLDERS

Late in the year, the corporation launched a major new initiative in the lucrative products sector. In February 1994, DKW executed an exclusive master distribution agreement with Imaging Technology Solutions (ITS) of New Orleans, Louisiana. Under the terms of the agreement, DKW will be responsible for international marketing and distribution of a unique and powerful suite of PC/Windows based software packages developed by ITS.

Key attributes of the ITS products: allow older mainframe systems at minimal cost to manage and process documents and images without the need for custom modifications; allow client server users the ability to easily select, combine and view corporate information, documents and images from all existing relational databases; and allow users to automate the flow of information and documents throughout their organizations. These powerful and highly flexible programs incorporate many unique proprietary, patent pending features. Industry analysts predict that the market for imaging and workflow related products will be one of the fastest growing software segments in North America in the coming years.

Management believes that the distribution of these products has significant revenue potential and will provide the corporation a valuable tool to increase the scope and value of the associated consulting services. Discussions now in progress with major firms across North America indicate a strong demand to resell or integrate these important new products into their current offerings.

DKW Systems Corporation is poised for significant international growth. On behalf of the board, I extend my thanks to our personnel, clients and shareholders for their continued commitment and support.



Alex Raczenko  
President & Chief Executive Officer

**AUDITORS' REPORT**

To the Shareholders of DKW Systems Corporation

We have audited the balance sheets of DKW Systems Corporation as at January 31, 1994 and 1993 and the statements of earnings, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at January 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

*Coopers & Lybrand*

COOPERS & LYBRAND  
Chartered Accountants

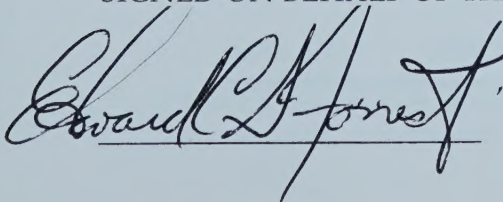
Calgary, Alberta  
March 18, 1994

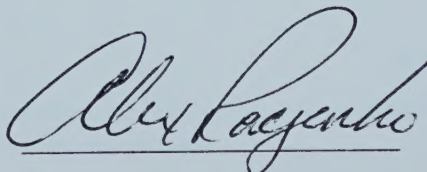


**BALANCE SHEETS**  
As At January 31, 1994 and 1993

	1994	1993
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	226,692	54,218
Accounts receivable	767,037	881,696
Prepaid expenses	9,689	6,407
	<u>1,003,418</u>	<u>942,321</u>
<b>Capital Assets (note 2)</b>	<u>128,415</u>	<u>129,820</u>
	<u><u>1,131,833</u></u>	<u><u>1,072,141</u></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	568,620	826,914
Deferred revenue	126,051	
Current portion of long-term liabilities	31,283	41,462
	<u>725,954</u>	<u>868,376</u>
<b>Long-Term Liabilities (note 3)</b>	16,033	47,316
<b>Deferred Income Taxes</b>	<u>3,500</u>	
	<u><u>745,487</u></u>	<u><u>915,692</u></u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock (note 5)</b>	648,313	512,813
<b>Deficit</b>	<u>(261,967)</u>	<u>(356,364)</u>
	<u>386,346</u>	<u>156,449</u>
	<u><u>1,131,833</u></u>	<u><u>1,072,141</u></u>

SIGNED ON BEHALF OF THE BOARD

 , Director

 , Director

**STATEMENTS OF EARNINGS**  
For the Years Ended January 31, 1994 and 1993

	1994	1993
	\$	\$
<b>Revenue</b>	6,003,289	6,753,045
<b>Direct Costs</b>	4,663,067	5,468,558
<b>Gross Profit</b>	1,340,222	1,284,487
<b>Operating Expenses</b>		
Selling, general and administration expenses	1,077,550	1,097,164
Severance and termination costs	107,990	
Depreciation and amortization of fixed assets	46,720	50,232
Interest and bank charges	10,065	24,613
	1,242,325	1,172,009
<b>Earnings Before Income Taxes</b>	97,897	112,478
<b>Income Taxes</b>		
Deferred	3,500	
<b>Net Earnings for the Year</b>	94,397	112,478
<b>Earnings Per Common Share</b>	0.012	0.015

**STATEMENTS OF DEFICIT**  
For the Years Ended January 31, 1994 and 1993

	1994	1993
	\$	\$
<b>Deficit - Beginning of Year</b>	(356,364)	(468,842)
Net Earnings for the Year	94,397	112,478
<b>Deficit - End of Year</b>	(261,967)	(356,364)



**STATEMENTS OF CHANGES IN FINANCIAL POSITION**  
For the Years Ended January 31, 1994 and 1993

	1994	1993
	\$	\$
<b>Operating Activities</b>		
Net earnings	94,397	112,478
Items not affecting cash		
Depreciation and amortization of fixed assets	46,720	50,232
Amortization of lease inducement	(2,554)	(2,554)
Deferred income taxes	3,500	
	142,063	160,156
Net change in non-cash working capital*	(20,066)	(17,162)
	121,197	142,994
<b>Financing Activities</b>		
Issuance of common shares	135,500	219,185
Shareholder settlement	(33,333)	(33,333)
Repayment of long-term debt, net	(5,575)	(16,458)
	96,592	169,394
<b>Investing Activities</b>		
Acquisition of capital assets, net	(45,315)	(36,655)
<b>Increase in Cash During the Year</b>	172,474	275,733
<b>Cash (Bank Indebtedness) - Beginning of Year</b>	54,218	(221,515)
<b>Cash - End of Year</b>	226,692	54,218

\* Non-cash working capital balances related to operations consist of accounts receivable, prepaid expenses less accounts payable, accrued liabilities, deferred revenue and income taxes.

## 1. ACCOUNTING POLICIES

### Capital assets and depreciation

Capital assets are carried at original cost less accumulated depreciation. Depreciation and amortization are calculated at rates which will reduce the original cost to estimated residual value over the useful life of each asset.

Computer equipment	30%	Declining balance
Computer software	50%	Declining balance
Furniture and office equipment	20%	Declining balance
Leasehold improvements		Straight-line over the life of lease

### Deferred lease inducements

Lease inducements received are deferred and amortized to reduce rental expense over the term of the lease.

### Deferred income taxes

The company uses the deferral method of income tax allocation. Deferred income taxes arise from timing differences between financial and tax reporting, and relate principally to depreciation and share issue costs.

### Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Exchange differences, other than those relating to long-term debt, are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. Exchange differences arising on the translation of foreign currency denominated long-term debt are deferred and amortized over the remaining life of the long-term debt.

### Earnings per common share

Earnings per common share have been calculated using the weighted average number of shares outstanding during the year. The effect of the conversion of all stock options issued and outstanding at the year-end would not have a materially dilutive effect on the current earnings per share.



**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended January 31, 1994 and 1993

**1. ACCOUNTING POLICIES (continued)**

**Revenue recognition**

Advance payments received under contracts are deferred and brought into income as work under contracts is performed.

**2. CAPITAL ASSETS**

	<b>1994</b>		
	Cost	Accumulated Depreciation	Net
	\$	\$	\$
Computer equipment and software	280,398	211,765	68,633
Furniture and office equipment	78,622	54,824	23,798
Leasehold improvement	118,177	91,797	26,380
Computer equipment under capital leases	28,000	18,396	9,604
	505,197	376,782	128,415
	505,197	376,782	128,415

	<b>1993</b>		
	Cost	Accumulated Depreciation	Net
	\$	\$	\$
Computer equipment and software	244,919	186,894	58,025
Furniture and office equipment	76,942	49,084	27,858
Leasehold improvements	111,498	81,281	30,217
Computer equipment under capital leases	28,000	14,280	13,720
	461,359	331,539	129,820
	461,359	331,539	129,820

**3. LONG-TERM LIABILITIES**

	<b>1994</b>	<b>1993</b>
	\$	\$
Shareholder settlement payable in monthly installments of \$2,778, without interest. Personal guarantees of certain directors or officers of the Company and a Consent Judgement held in trust are held as collateral for the settlement.	22,223	55,556

**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended January 31, 1994 and 1993

**3. LONG-TERM LIABILITIES (continued)**

	1994 \$	1993 \$
Capital lease obligation payable in monthly installments of \$740 including principal and interest at 18% per annum until April 30, 1996.	15,939	21,514
Deferred lease inducement amortized to reduce rental expense over the term of the lease at \$2,554 per annum until August 1997.	9,154	11,708
	47,316	88,778
Less: Current Portion	31,283	41,462
	<u>16,033</u>	<u>47,316</u>

Minimum lease payments under capital leases are \$8,877 for each of 1995 and 1996 and \$1,480 for 1997. The entire severance settlement will be paid in 1995.

**4. CONTINGENT LIABILITY**

During 1993 a former officer and director of the Company filed a Statement of Claim against the Company for damages in the amount of \$100,000 for wrongful dismissal during 1992. Management believes it has complete defense against this action and hence no provision has been made for this potential liability in these financial statements.

**5. CAPITAL STOCK**

Authorized

Unlimited number of common voting shares without nominal or par value  
Unlimited number of "first", non-voting, preferred shares  
Unlimited number of "second", non-voting, preferred shares  
Unlimited number of "third", non-voting, preferred shares  
Unlimited number of "fourth", non-voting, preferred shares



**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended January 31, 1994 and 1993

**5. CAPITAL STOCK (continued)**

Issued	1994		1993	
	Number of Shares	\$	Number of Shares	\$
Balance, beginning of year	7,742,767	512,813	7,844,763	293,628
Shares cancelled (note 5(a))			(999,996)	
Issued for cash (notes 5(b) and 5(c))	300,000	99,000	878,000	217,185
Issued for cash on exercise of options	162,500	36,500	20,000	2,000
Balance, end of year	<u>8,205,267</u>	<u>648,313</u>	<u>7,742,767</u>	<u>512,813</u>

**a) Share cancellation and shares held in escrow**

The Company received regulatory approval on May 5, 1992 for the amendment of an Escrow Agreement between the Company, The RM Trust Company and certain shareholders of the Company. The amendment to the Escrow Agreement resulted in the cancellation of 999,996 escrow common shares, the immediate release of 999,996 common shares from escrow and the release of 1,140,156 common shares from escrow on January 31, 1993. The remaining 1,140,159 common shares were released from escrow on January 31, 1994.

**b) Private placement**

During the year, the Company issued 300,000 units by way of private placement at a price of \$0.33 per unit. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the Holder thereof to purchase 1 common share at \$0.40 on or before December 23, 1994. As at January 31, 1994 all of the warrants were still outstanding.

**c) Public exchange offering**

During the year ended January 31, 1993 the Company issued 878,000 units by way of public offering at a price of \$0.30 per unit. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the Holder thereof to purchase 1 common share at a price at \$0.35 on or before April 30, 1993. Pursuant to an agency agreement, the Company granted to its agent in respect of the public offering an option to purchase 100,000 common shares at a price of \$0.30 per share on or before December 14, 1993. The option was fully exercised on December 14, 1993.

# NOTES TO FINANCIAL STATEMENTS

For the Years Ended January 31, 1994 and 1993

## d) Stock options

The Company has granted options to purchase common shares to certain of its directors and employees. These options outstanding as at January 31, 1994 and 1993 were as follows:

### As at January 31, 1994

<u>Expiry Date</u>	<u>Exercise Price Per Share</u>	<u>Number of Common Shares</u>
November 16, 1994	\$0.35	25,000
January 10, 1995	\$0.10	20,000
September 8, 1995	\$0.20	50,000
September 8, 1997	\$0.20	600,000

### As at January 31, 1993

<u>Expiry Date</u>	<u>Exercise Price Per Share</u>	<u>Number of Common Shares</u>
January 31, 1994	\$0.40	223,715
November 16, 1994	\$0.35	25,000
February 9, 1995	\$0.10	90,000

## 6. COMMITMENTS

The Company is committed under the terms of non-cancellable operating lease agreements to minimum lease rentals as follows:

	<u>\$</u>
1995	60,488
1996	62,863
1997	41,151
1998	<u>15,855</u>
	<u>180,357</u>



**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended January 31, 1994 and 1993



**7. INCOME TAXES**

The Company has reduced its income taxes otherwise payable by utilizing \$90,870 (1993 - \$96,692) of non-capital losses incurred in prior years, the benefit of which had not previously been reflected in its financial statements. The Company has allowable capital losses of \$151,000 (1993 - \$151,000) to apply against future capital gains.

The Company's provision for income taxes is made up as follows:

	1994	1993
	\$	\$
Provision for income taxes at the statutory rates	44,052	50,615
Increase (decrease) due to:		
Utilization of prior years' non-capital losses	(40,892)	(43,511)
Non-deductible expenses for tax purposes	4,427	5,315
Other	(4,087)	(12,419)
Actual provision for income taxes	<u>3,500</u>	

## CORPORATE INFORMATION

### DIRECTORS

Colin F. Andrews  
Calgary, Alberta

Edward Forrest  
Calgary, Alberta

Michael J. Perkins  
Calgary, Alberta

Alex Raczenko  
Calgary, Alberta

### OFFICERS

Alex Raczenko  
President & Chief Executive Officer

Wilf P. Craats  
Vice President, Finance & Operations

Colin F. Andrews  
Vice President, Marketing

### LEGAL COUNSEL

Ogilvie and Company  
Calgary, Alberta

### BANKERS

Toronto Dominion Bank  
Calgary, Alberta

### AUDITORS

Coopers & Lybrand  
Calgary, Alberta

### REGISTRAR & TRANSFER AGENT

RM Trust Company  
Calgary, Alberta

### ALBERTA STOCK EXCHANGE

Trading Symbol - DKW

### DKW SYSTEMS CORPORATION

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